

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
Fax: (803) 737-0801

DAN E. ARNETT
CHIEF OF STAFF

nsedwar@regstaff.sc.gov

Nanette S. Edwards

Chief Counsel and Director of Legal Services

VIA EFILING AND HAND DELIVERY

December 28, 2007

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

**Re: Rulemaking Regarding Prepaid Telecommunications Local Services - Notice of
Drafting Filed with the South Carolina Legislative Council
Docket No. 2007-400-C**

Dear Mr. Terreni:

On November 9, 2007, the Commission requested that comments regarding whether regulations governing telephone companies that provide prepaid local exchange service should be promulgated and whether those regulations should require bonding or other security from prepaid local exchange telephone service carriers to protect consumers of prepaid local exchange telephone service, and if so, how such requirements should be implemented. The deadline to file comments is December 31, 2007.

The Office of Regulatory Staff ("ORS") files the enclosed comments regarding the referenced docket.

ORS appreciates the opportunity to comment and plans to participate in any workshops the Commission may hold regarding this matter. We will continue to review the guidelines and forward any additional comments.

Sincerely,

Nanette S. Edwards

ORS has identified the following issues for the Commission to explore regarding regulations governing telephone companies that offer prepaid local exchange service.

1. Define prepaid local exchange carrier or define the scope of the regulation.

The regulation should be tailored in such a manner that consumers who pay in advance for local exchange service have some protection and yet the regulation does not prevent carriers from offering competitive prepaid services.

2. Prepaid local exchange carriers should be required to maintain a bond or other security.

The purpose of the bond or other security is to provide a safety mechanism to assure consumers of prepaid local exchange service receive the service they paid for. Currently, the Commission requires a bond for inter-exchange carriers offering prepaid calling card services.

3. The bond or security requirement should apply to local exchange carriers who resell local exchange service and do not own physical assets or facilities within South Carolina.

ORS recommends limiting the application of the bonding or security requirement to resale carriers offering local exchange service that do not own physical facilities or assets in South Carolina.

4. The Commission should set the bond or security amount for prepaid local exchange carriers.

ORS recommends the Commission set specific minimum limits on the bond or security amount. The Commission may consider several methods of calculating the bond or security amount for each carrier depending on customer count, tariffed monthly service charges, financials, or other criteria. The bond amount may be adjusted on an annual basis based on a review by ORS of the carriers Annual Report and current tariff.

5. The Commission should consider the different types of bond or security mechanisms for prepaid local exchange carriers.

ORS recommends the Commission consider the following types of bond or security mechanisms:

- a. Irrevocable Letter of Credit issued by a financial institution authorized to do business in South Carolina
- b. Surety Bond issued by an A-grade insurer having an office in the State of South Carolina
- c. Certificate of Deposit issued by a financial institution authorized to do business in South Carolina
- d. Escrow Account which cannot be part of a standard business account. The escrow agent cannot be employed by or have any business affiliation with the carrier.

6. The Commission should consider the practices of other State Commissions.

Other State Commissions require bond or security for prepaid local exchange carriers. Some examples are:

- a. Georgia requires escrow or surety bond.
- b. Louisiana requires a minimum of \$50,000 in a performance bond, irrevocable letter of credit, or other form of security to cover any customer prepayments or deposits.

- c. Maryland requires a \$5,000 insurance bond prior to certificate to operate.
- d. North Dakota requires a minimum of \$25,000 in a performance bond or escrow account.